

## **PRICING FACTORS**

- Supply and demand – As a supply for a product lowers and becomes limited the price will increase. Prices rise and fall with the demand of a product, as demand rises prices rise, etc.
- Uniqueness – If a product has little to no competitors because it is unique, the prices will be higher than products similar to other products.
- Age (of product) – When a product is new to the market the prices will be high, as the age increases the demand and price will decrease.
- Season – Items such as winter apparel are season and only have a high demand at one certain time a year, price is usually highest at the beginning of these seasons.
- Complexity – High complexity items will have a higher price than simple products (iPod touch compared to Walkman) Products with many features and options will have a higher price.
- Convenience – People pay for convenience, if a product is readily available and customer service is good prices will go up, customers expect low prices when a product is sold at warehouse style store with little/no customer service.

## **VOCABULARY**

- Price – The money a customer must pay for a product or service.  
$$\text{Product costs} + \text{Operating Expenses} + \text{Profit} = \text{Selling price}$$
- Selling price – Price paid by the customer for the product
- Product costs – Costs to the manufacturer of producing the product **or** The price paid by the other businesses to buy the product
- Operating expenses – All expenses of operating the business that are associated with the product. This can include salaries, storage, display, facilities, utilities, taxes, and much more.
- Profit – The money available to the business after all costs and expenses have been paid.
- Gross margin – The difference between selling price and the product costs, this represents the amount of money on hand to pay for operating expenses and provide a profit.
- Markup – The amount added to the cost of a product to set the selling price. The markup is equal to the expected gross margin.
- Markdown – A reduction from the original selling price. This may happen if the selling season of a product has ended or demand is not high for the product.
- Distribution – The locations and methods used to make a product or service available to the target market.
- Channel of distribution – The route a product follows and the business involved in moving a product from the producer to the final customer.
- Channel members – The businesses that take part in a channel of distribution.
- Direct channel of distribution – Products move straight from the producer to the customer with no other organizations participating
- Indirect channel of distribution – One or more other businesses between the producer and the customer

## **Channels of Distribution**

- Differences in Quantity- Businesses produce or sell large amounts of each product to many customers. Only every consumer needs a small number of products at a given time.
- Differences in Assortment- Businesses specialize in producing a specific product for the consumer. While the consumer wants to buy a variety of products
- Differences in Location- In today's global economy, producer and consumer may be thousands of miles away. Businesses may need to distribute to many different countries
- Differences in Timing- Gain efficiency when a product is produced on time. Some products (agricultural) can be produced once a year. Consumers may want to buy at times than when they are produced.